



# Macedonia Competitiveness Activity

## Annual Report January 2005 – April 2006

Ul. Bukureska 133b  
Skopje, Macedonia  
Tel: (389 2) 309-1711  
Fax: (389 2) 307-9158

# **Macedonia Competitiveness Activity January 2005 – April 2006 Report**

## ***Executive Summary***

*At a March 2006 export conference co-sponsored by the Ministry of Economy and USAID's WTO implementation project, Macedonian Prime Minister Vlado Buckovski announced that Macedonian exports in 2005 saw the largest increase since 1999: 21.9 percent over 2004<sup>1</sup>. USAID'S Macedonia Competitiveness Activity (MCA) cluster members, beneficiary organizations and staff contributed significantly to that success as evidenced in this report.*

*MCA is a competitiveness project through which USAID invested nearly \$12 million to help companies and industries learn to compete globally.*

*USAID/MCA played a direct role in \$7.3 million in verifiable export sales in 2005 and in \$7.7 million of additional committed exports during the first five months of 2006.<sup>2</sup> Even assuming a conservative case estimate over the next five years, the directly attributable net present value of USAID's impact on Macedonia through MCA is \$30.76 million.<sup>3</sup> MCA has directly assisted 180 companies, and project activities will have directly resulted in at least 500<sup>4</sup> new jobs being created by the end of the year.*

*The major benefits of USAID/MCA will be felt far into the future as companies that became more competitive with MCA assistance achieve greater and greater business success, and as Macedonia as a nation reaps the benefits of an advanced private sector capable of generating attractive jobs and increased income for its citizens.*

---

<sup>1</sup> National Bank of Macedonia web site

<sup>2</sup> Reports from cluster members

<sup>3</sup> NPV estimate assumes 20% annual decrease in directly attributable revenue each year for 5 years. Values for directly attributable exports revenue in millions are 2005 (\$7.3), 2006 (\$9.7), 2007 (\$7.76), 2008 (\$5.82), 2008 (\$3.88), 2009 (\$1.54) and 2010 (\$1.54). We have applied a discount rate starting for the 2007 period of x percent which represents the cost of capital in Macedonia.

<sup>4</sup> Because MCA did not explicitly track job creation, this number includes primarily IT and Apparel cluster jobs. We know that a significant number of jobs were created in the five supported clusters but have not been captured.

## *Business Results by Cluster*

### **Lamb & Cheese**

Macedonian dairies assisted by MCA when they sent their first ever cheese export in late 2003, a small sample sent to the United States.

- In 2005 alone, cheese products valued at nearly \$1 million were exported to demanding customers in the US and Australia as well as regionally in Albania, Kosovo and Serbia. Cheese export sales will continue to increase as more dairies and cheese-makers export for the first time and as current exporters fulfill re-orders from satisfied international customers.
- Total cheese exports through April 2006 were more than \$1.1 million.<sup>5</sup>

Standards of living for the 55,000 people who make their living from raising sheep are threatened by uncertain markets for lamb in Italy and Greece and limited opportunities in the general economy. While cheese sales can be an important source of income for farmers and dairy companies, historically Macedonian dairies and sheep farmers didn't export their cheeses. Before starting to work with USAID/MCA's Lamb & Cheese Cluster, the dairies did not know which foreign market segments were most attractive and did not have contacts with distributors in foreign markets. Most seriously, perhaps, the dairies lacked confidence and interest in exporting; only one dairy had obtained an export license.

Since forming the cluster, both the dairies and sheep farmers have taken important steps that resulted in the first cheese exports. The cluster conducted consumer research and taste tests that helped producers modify their products to meet customer demand. The dairies obtained third country and EU export licenses, pursued HACCP certification and invested in quality, production, marketing, packaging and distribution improvements. Attendance at global and regional trade fairs significantly increased the dairies' contact with potential customers, and qualified leads were turned into new sales with assistance from USAID/MCA.

- And it all started with one dairy owner daring to do what was considered undoable in 2003 – find a buyer in the US and send a test shipment of Macedonian cheese. “If he can do it, so can I” was a frequent comment afterwards.

Advice from an international cheese monger and a wine and cheese festival undertaken by MCA helped the sheep herders who make cheeses on farm increase domestic sales. Through participation in a USAID/MCA-sponsored

---

<sup>5</sup> Reports from cluster members

festival, the sheep farmers increased their knowledge of customer tastes and preferences, pricing and marketing techniques. They took action to improve production, and they identified new buyers in restaurants, shops and other distribution channels that they hadn't considered before.

Macedonian lamb is highly valued by customers in the region, but small flocks, lack of market information and a distribution system that puts the sheep herder at a disadvantage limit income potential. Typically a sheep herder who has no information about demand, pricing and margins sells his flock at the farm gate to a "middle man" (individual or slaughterhouse) who does have that information and makes a profit at the farmer's expense. MCA teamed with USAID's agribusiness project managed by Land O' Lakes and a Swedish project, SFARM, to assist sheep herders to improve their profits by selling lamb carcasses directly to Greek markets and other buyers.

#### **Largest dairy expands exports**

IMB, the largest dairy in Macedonia is a former state-owned facility. IMB invested significantly in production improvements and added capacity that came on line in 2004. IMB worked with USAID/MCA to identify qualified leads for exports sales through participation in the SIAL 2004 Global Food Show, organized by the project. Exports have risen 250 percent in 2005.<sup>6</sup>

#### **New dairy consortium formed**

MCA's insistence that exports be long term and sustainable helped spur the development of a new dairy consortium that started exporting cheeses to the US in 2005. A potential US importer who wanted to buy a container of Macedonia cheese contacted MCA in early 2004. The cluster adviser asked about his marketing plan to ensure a steady flow of exports, not just a one-time sale. By early 2005 the importer based in Florida had completed research to identify his market – restaurants and caterers in the southeastern United States and formed a consortium of four Macedonian dairies to provide a steady flow of cheese to Florida and nearby markets. In addition, extensive taste tests were conducted and identified a preference for a lower salt cheese than is traditionally produced in Macedonia. Macedonian producers modified cheese products to better satisfy foreign customers as a result of the taste test activities.

Consortium dairies have upgraded production equipment and facilities to meet HACCP standards and increasing export demand. The size of sheep flocks owned by the dairies is being increased to ensure that an adequate supply of quality sheep milk is available to meet demand.

---

<sup>6</sup> Cluster member

- The consortium's 2005 exports totaled more than \$22,000<sup>7</sup>, a small test shipment in May and a container of soft white cheese shipped in July. Another shipment was stopped by the quality control manager when he found higher salt levels than the customer would accept. That cheese was sold domestically.
- In summer 2005, one of the consortium members announced it will construct a new cheese-making plant to meet the consortium's export needs. The \$2.3 million facility will meet the highest EU and international food safety standards and will process 30,000 liters of milk a day.<sup>8</sup>

### **Family dairy maximizes MCA support to grow**

With support from MCA, Budzen Kozjak, a family-owned dairy in Kumanovo, has increased sales 26 percent, increased employment 25 percent, obtained an export license, invested significantly in new equipment, diversified its products and revamped its marketing – all in less than three years.<sup>9</sup> This small 20+-year-dairy joined the Lamb & Cheese Cluster eager to learn what was possible and has put what it learned to excellent use.

USAID/MCA provided technical assistance that started with a company assessment: visiting farmer-suppliers and customers; analyzing financials, record keeping and cash flow; evaluating equipment, marketing, distribution, promotion, pricing. We identified that Budzen Kozjak that made quality products, had excellent relations with its 400+ farmer-suppliers and a small but solid domestic base of customers for its “daily dairy products” (yogurt, cheeses, sour cream and other dairy products made without preservatives). MCA further helped the dairy management develop a marketing strategy, including expanding distribution to the larger supermarkets, teaching them how to negotiate prices and shelf space and run seasonal promotions, among other marketing strategies and tactics. New computers were installed and networked, providing faster and more accurate production records and financials. New products were developed, and new packaging designed.

- Budzen Kozjak has added the three largest supermarkets in Macedonia among other new clients, to its customer base. In 2005, sales to one major supermarket chain alone increased almost 65 percent, as a direct result of improved product quality and more sophisticated marketing<sup>10</sup>
- Having obtained its third country export license, the dairy sent a test shipment to one regional country and has qualified in three others.<sup>11</sup>

---

<sup>7</sup> Cluster member

<sup>8</sup> Cluster member

<sup>9</sup> Cluster member and IESC VE report

<sup>10</sup> *ibid*

<sup>11</sup> *Ibid*

MCA supported the cluster member's progress toward HACCP certification with a small grant to help purchase required new equipment. More packaging and product improvements were unveiled in April 2006. The dairy was also among the four original partners in the dairy consortium that was formed to sell Macedonian cheese in the U.S.

### **Macedonians try Italian cheeses**

Macedonian consumers were introduced to traditional Italian cheeses in an untraditional way – and the cheeses have been big hits. Nagib and Gzime Fezji had opened a successful dairy in Italy. They decided to return to their native village near Gostivar and “give something back to the village” by opening a second dairy in 2003.<sup>12</sup> The cheese-making operation features mozzarella, ricotta and a variety of specialty cheeses flavored with herbs, peppers and other ingredients.

Gzime Fezji manages the Macedonia operation while her husband focuses on Italy. She has actively participated in the cluster and recently joined the National Entrepreneurship & Competitiveness Council. Fezji took part in MCA's market research activity in Kosovo and Albania. Cluster technical experts helped the dairy implement the latest production standards, improve compliance with EU standards, and adopt other quality and marketing improvements as well as to create linkages with farmer groups (potential milk suppliers).

The results? Fezji cheeses are served in some of the best restaurants in Macedonia. The success of the on-plant retail outlet led to the opening of a second retail shop, Caseificio Cesarina, in a Skopje shopping mall, in 2005. The Fezjis continue to introduce Macedonians to new cheese tastes, most recently cheeses aged in coffee and chocolate.

- Cheese sales have doubled between 2003 and 2005, creating several additional jobs and laying the foundation for continued future growth.<sup>13</sup>

The Fezjis are working to obtain an export license to take advantage of regional opportunities.

### **A flip of the coin decided Macedonian representative**

A flip of a coin determined who would legally represent Macedonian sheep farmers in their first direct negotiations and subsequent business for the sale of lamb in Greece. That simple act of trust demonstrates the incredible changes that

---

<sup>12</sup> Cluster member

<sup>13</sup> Ibid

are taking place in the sheep industry in Macedonia as a result of USAID/MCA's work with the Lamb & Cheese Cluster.<sup>14</sup>

MCA proposed a "Greek Lamb Test Market" to cluster members, the Eastern and Western Sheep Breeders Associations, in late 2004 as a way to increase their profits by eliminating the "middle man" and selling lamb carcasses directly to Greek buyers. The associations agreed, and MCA joined forces USAID's agribusiness project managed by Land O' Lakes and a Swedish project known as SFARM2 to ensure quality lambs and qualified slaughterhouse facilities and to train a pilot cooperative to provide the lambs, handle logistics and fulfill a contract.

Distrust between the sheep farmers has historically been high. Not only were they geographically separated, but their ethnicities, cultures and religions were different. The result was two farmer cooperatives, one in the east and one in the west. Each hired a professional manager and enlisted members willing to take part in a pilot sale totaling 1500 lambs. USAID/MCA advised the associations early in the process that Greek buyers would want a single contract and a single point of contact for the sales transaction. For several months, the managers, co-op and association leaders met jointly, attended training and got to know each other. When the MCA lamb marketing consultant "called the question" on which association would legally represent both groups for purposes of the sale, the associations agreed that either would accept the other in that role. A symbolic and extremely important coin toss ultimately identified the Western Shepherders' Association (SHA) as the legal seller of record of the test lambs. The co-ops also agreed to hire a non-member with strong marketing experience to represent them.

With help from MCA's lamb marketing consultant, the co-ops and their representative developed a brand (LTM – Lamb to Market) that identified top quality lambs available direct from the farmer and with traceability and HACCP in place. In March 2006, the LTM team learned that very recent changes in the Greek market made direct sales of Macedonian lamb to a supermarket chain impossible for Easter 2006. At the suggestion of a supermarket executive, they contracted with an Athens trader to represent them to other interested clients.

Italian traders, who buy for an earlier "Catholic Easter" date, were active and drove up prices of live lamb at the farm gate, then suddenly a week before Easter stopped, leaving many farmers with unsold lamb. The sheep breeders were expecting prices from the Greeks to match those of the Italians. But prices dropped as Greek officials took a firm and very public stand against any

---

<sup>14</sup> Goce Mitevski, SFARM; & John Willsie, MCA consultant

infractions regarding the sale of imported lamb, scaring off many importers. The campaign continued until Orthodox Easter weekend, virtually eliminating any opportunity to export to Greece.<sup>15</sup>

Despite the set back, the LTM team is looking to the future. Their sales agent in Athens worked diligently on their behalf and is continuing to identify clients for their quality lamb. Their primary market is foodservice – restaurants, catering, cruise lines and such – as well as neighborhood butchers who sell 70 percent of meat in Greece. A familiarization visit by the agents and key clients to Macedonia is under consideration for June 2006, and the team looks forward to signing long term contracts for the year-round sale of lamb not only in Greece but also Italy and other markets.

## **Tourism**

Macedonia re-established inbound tourism in the 2002 to 2005 period, thereby reversing a plummet of tourist arrivals that occurred after the conflict.

- Foreign tourist arrivals in 2005 surpassed 197,000 which equates to more than a 75% increase over the 2002 arrival figure of 112,300; 2002 was the baseline year for MCA's work with the sector.<sup>16</sup>

Formed in April 2003, the Tourism Cluster conducted market research, then developed a strategy to capture "healthy, wealthy, experienced" tourists seeking nature/adventure or culture/history experiences. The marketing strategy included trade fair attendance, developing new promotional materials, hosting familiarization (fam) tours for international tour operators and travel writers, providing hospitality training and addressing Macedonia's litter problem.

- Tourist nights in mountain lodges more than doubled in the period, parallel with the offer of nature/adventure tours as a strategic direction of the cluster.<sup>17</sup>

The Dutch, once a significant source of foreign tourists in Macedonia, have begun to re-discover the country. MCA, the cluster and the Dutch Chamber of Commerce in Macedonia joined in a campaign to re-introduce Macedonia to the Dutch. Cluster members exhibited at a tourism fair in Utrecht and met with Dutch counterparts in Maastricht in 2004 and after the ITB Berlin tourism fair in 2005. Following a model established by MCA for the cluster, an Ohrid-based

---

<sup>15</sup> John Willsie reports; Greek news briefs

<sup>16</sup> Based on State Statistical Office report

<sup>17</sup> Ibid.



travel agency hosted a mini-fam tour for Dutch tour operators, tourism faculty and journalists in April 2005.

- The number of nights spent by Dutch tourists rose 400+ percent, from under 5,000 in 2002 to about 20,000 in 2005.<sup>18</sup> Charter flights between the Netherlands and Ohrid were resumed in summer 2005.
- “Macedonia, the Hidden Paradise/Sleeping in the Style of Alexander the Great” was what *De Telegraf* told its 1.8 million readers in January 2005. A reporter for this Dutch newspaper had previously met with cluster members in Maastricht at the behest of the Dutch Chamber of Commerce.

Local travel agents and hotels reconnected “lost linkages” with regional counterparts. Cluster members ATAM (travel agents’ association) and HOTAM (hotel association) exchanged fam tours with counterparts from neighboring countries.

- The highest increases in foreign tourist arrivals are from Albania, Serbia and Montenegro, and Bosnia and Herzegovina.<sup>19</sup>

Cluster members reached beyond their borders to connect with foreign operators and travel writers, resulting in first-time offerings of Macedonia by the several top international tour operators and publicity in major publications.

- In spring and fall 2004, 15 tour operators from the US, UK, continental Europe and Turkey sampled Macedonia’s warm hospitality and experienced the best it has to offer in culture and nature/adventure tourism.<sup>20</sup>
- Although long lead times are typical in the tourism industry, six renowned international operators including Explore!, Old Country Tours and Regent Holidays (all UK based) included Macedonia in their catalog and tour offering to clients the following season. Others included Macedonia in their itineraries for 2006 and 2007.<sup>21</sup>
- In 2005 Macedonian travel agents continued to negotiate with foreign tour operators at a significantly higher level than pre-USAID/MCA.<sup>22</sup> These negotiations serve as a leading indicator for additional international exposure for Macedonia’s tourism offering and continued increase in international arrivals.

At the same time, the cluster promoted Macedonia in 2005 by hosting two fam tours for international travel writers in cooperation with a USAID project in Albania. Ten journalists and a photographer representing media outlets in the

---

<sup>18</sup> State Statistical Office

<sup>19</sup> Ibid.

<sup>20</sup> Initiative reports

<sup>21</sup> Ibid

<sup>22</sup> Reports from cluster members

UK, US, Italy and Germany as well as the region took part in the May and July tours. The July tour attended a Jose Carreras concert that opened the Ohrid Summer Festival.

- The journalists concluded – and wrote – that the traveling public should “Make Time for Macedonia” as the *Times of London* online version headlined on 28 January 2006.

Others were touting Macedonia as a must-see tourist destination, including *CNN Traveler* magazine, UK’s *Motoring and Leisure*, and *International Travel & Tourism News*. *Elle-Italia* fashion magazine will carry a six-page spread on Macedonia in summer 2006. Most recently, MCA assisted a German reporter who arrived in Macedonia preparing for a series to inform *Die Zeit* magazine readers about the countries of the former Yugoslavia. A flattering piece on Macedonia appeared in early May 2006.

To re-focus cluster members on inbound tourism and the needs of demanding customers, MCA worked with them to develop tour itineraries; evaluate hotels, restaurants and “experiences” (existing and proposed tourist sites such as museums, churches and mosques, old markets, archeological ruins) using a scorecard system to capture customer feedback; establish a more customer-centered service mentality; and clean up Macedonia’s littered environment. Cooperation between MCA, the German development program GTZ and the cluster resulted in a glossy four-color brochure featuring tours tailored for the hiker/biker or cultural tourist. In English and German, the brochure was presented at the Hanover Alternative Tourism Fair in Germany in early 2004 where cluster members made connections with tour operators who later attended their fam tour.

### **Travel agency grows with inbound tourism**

Cluster activities taught members new ways to market and energized them to expand their horizons and focus more on inbound tourism. Negotiations between a Kompas Skopje travel agency and a major tour operator from the UK began after the UK agency representative attended the cluster’s first fam tour in April 2004. (Fam – familiarization – tours are how tour operators and travel agents learn about new offerings.) The first tours of Macedonia in 2005 were so successful that the UK firm immediately signed a contract for more tours in 2006. And the firm has already signed a contract with its Macedonian partner for 2007 tours.

The UK tour operator’s most successful tours have been Ancient Macedonia, which includes Macedonia, Greece and Bulgaria. Its groups consist of people from the UK, US, Canada and Australia. In 2006, the Macedonian travel agency

is also working with a Slovenian partner to bring in 22 groups from Japan and Taiwan, also for a regional tour that includes Albania and Macedonia.

- The Macedonian agency reports that it has gone from no incoming tourism to incoming tourism making up as much as 80 percent of its business.
- Kompas estimates it will handle as many as three times the number of incoming foreign tourists in 2006 than in 2005.
- It has also booked several itineraries each for one or two individuals who found the agency through the Exploring Macedonia tourism web portal supported by several USAID projects including MCA in 2004. These tourists have come from as far away as Argentina and Brazil.<sup>23</sup>

### **Domestic investment in new luxury hotel**

First-rate hotel accommodations outside Skopje and Ohrid can be difficult to find. One travel agency seized that opportunity and is making a significant investment in a new hotel in one of the most beautiful areas of Eastern Macedonia.

- Cluster member Aurora travel agency, Skopje, is building a “club hotel” near Berovo.<sup>24</sup>

Situated on 30 hectares, the hotel features a botanical garden, restaurant and snack bar, conference facilities, outdoor pool, health club with gym and spa, tennis courts, miniature golf and children’s club. The hotel will accommodate up to 100 guests in standard rooms, suites, and apartments in residential villas and is expected to open in 2007.

### **Industry associations invigorated**

Vibrant, active associations are important to the long-term success and sustainability of cluster activities, yet when the Tourism Cluster was formed, Macedonia’s travel industry associations were largely inactive and had limited credibility. USAID/MCA’s initial frustration with the lethargy of these associations changed in early 2005 when the MCA cluster staff met with the new leaders of ATAM (travel agents association) and HOTAM (hotel association). With MCA encouragement, the leadership of these organizations worked to revitalize their associations in 2005 by providing value to members and slowly re-building their membership bases. The two organizations cooperated with regional counterparts and the Ministry of Economy to host or attend fam tours that helped re-connect and re-familiarize each other with their country’s offerings. They also attended regional and international tourism fairs. They

---

<sup>23</sup> All info from cluster member

<sup>24</sup> Cluster member

became active cluster members; the HOTAM president joined the cluster leadership council.

ATAM kicked off its new agenda at a 10<sup>th</sup> anniversary celebration in November 2004 and undertook a series of practical workshops for its members during 2005.

- ATAM added 50 new members in 2005 (from 47 in 2004 to 99 in 2005).<sup>25</sup>

HOTAM, with an MCA grant, developed a catalogue of Ohrid area hotels for distribution to regional and international travel agencies and tour operators. The president was instrumental in the formation of a regional hotel association, and its first meeting was held in Ohrid in September 2005. And in early 2006, the association was given the services of a Peace Corps volunteer for two years to support its ongoing development into a vibrant sustainable association.

- HOTAM's paid membership increased by more than 20 percent in 2005, to 61 members from around the country. Its board approved a 2006 budget of nearly 160,000 euros for activities ranging from marketing to an anti-litter campaign that will build on USAID/MCA's original idea and earlier activities.<sup>26</sup>

HOTAM also helped establish the Balkan Alliance of Hotel Associations (BAHA) in fall 2005. The presidents of hotel associations in Macedonia, Albania, Serbia, Montenegro, Romania, Bulgaria and Bosnia and Herzegovina took part in the formation of BAHA, which is headquartered in Ohrid. Its first annual meeting will be held in Sofia in June 2006 and the president of Bulgaria is expected to open the event at which Greece, Croatia and Ukraine are expected to become members of BAHA. BAHA was created to provide a synergistic regional approach to tourism promotion and development.

ATAM and HOTAM also worked toward a new Law on Tourism. With support from the Faculty of Tourism and Hospitality, ATAM and HOTAM, they proposed new legislation that included laws on inspections, tourist fees, tourism, hospitality and tourism associations and financing of tourism associations. The proposed legislation would replace the existing law and decentralize authority. They are working toward adoption in 2006.

## **IT Cluster**

Macedonian IT companies broke into new markets, formed a new industry and gained important recognition in the global marketplace in 2005.

---

<sup>25</sup> Report from ATAM

<sup>26</sup> Report from HOTAM

- Total estimated export sales to the US and Western Europe for 2005 for the software development and new digital media industries was more than \$1 million, and the industries' pipelines for 2006 already top \$4 million.<sup>27</sup>
- With MCA assistance through its cold call program, ITSM completed a requirements definite project for London-based company. The completed project valued at \$10,000 is the initial phase of a development project estimated at \$200,000.<sup>28</sup>
- With MCA assistance in developing its partner marketing and telesales, another IT Cluster member estimates a direct increase in sales of more than \$500,000 in its two key products.<sup>29</sup>
- With MCA assistance in marketing and training, Ein-Sof won a contract with Johnson Controls (JCI) in 2005 that was expanded significantly in 2006 and has employed 22 new developers.
- Four cluster members credit at least \$100,000 in 2005 sales directly to MCA support.<sup>30</sup>
- Macedonia was named one of the global five fastest growing IT/business services markets in 2003 in an OECD study reported in *The Economist* on 27 July 2005.
- Cluster company NextSense won a "Best Web Portal 2005" award from Microsoft for an e-gov portal it developed using Microsoft technology.<sup>31</sup>

An analysis by an MCA IT consultant in 2004 identified the relatively small size of Macedonian IT companies as a critical deterrent to gaining lucrative contracts from major European clients. None had sufficient analysts and programmers individually to undertake a large project. However, if they formed consortia that were capable of presenting themselves as if they were one company, size would no longer be an issue. Collectively a consortium of companies could provide adequate staffing, a competitive range of expertise and solid language skills.

The establishment of two consortia – MacedoniaIT and ITSM Group – was an important milestone in the cluster's work. Within this framework, more than 100 people were trained in business-to-business telemarketing skills and more than 80 meetings with prospective clients in Vienna, Zurich and London were held. While MCA success is clearly not measured in terms of meetings, the ability to directly and credibly approach internationally known clients from key Western European cities as a consortium was unprecedented in Macedonia where businesses were not accustomed to industry collaboration.

---

<sup>27</sup> Cluster companies

<sup>28</sup> Cluster company

<sup>29</sup> Cluster company

<sup>30</sup> Cluster companies

<sup>31</sup> Cluster company

Eight cluster members formed MacedoniaIT to focus on software for the services sector, such as banking. Following in their footsteps, ITSM Group was formed around document management applications with five members.

With MCA assistance, the consortia established policies for joint marketing, decision making and sharing contracts and eventually hired sales representatives. They received “cold call” training and learned how to do more effective follow up with potential clients.

The consortia presented “one face” to top European prospects such as the Vienna Stock Exchange, Deutsche Bank, T-Systems, Erste Bank, IBM and the British European Center for Offshore Development (eCode).

- ITSM completed a small initial contract in 2005 for business analysis and database design related to commodity exchange application for one of the top 10 European banks through a UK firm. The consortium is awaiting final confirmation of a follow-on contract for software development that is valued at \$100,000 and is expected to create 10 new jobs. A third phase, expected to be valued at more than \$100,000, is anticipated to follow as the software is rolled out to other countries.<sup>32</sup>
- ITSM is also under consideration for a joint venture with a UK-based company that would give members a share in incremental product revenues. That deal could be worth up to \$1 million.<sup>33</sup>

MCA has been providing sector and firm-level assistance to IT companies since 2003, resulting in increased sales and cost savings to the companies in 2005.

### **Contract with Fortune 100 company**

Embedded software is one of the most important aspects of today’s software development. Macedonia’s EinSof is developing embedded automotive software for a leading US company, Johnson Controls (JCI).

For EinSof to secure a contract with JCI, the company needed additional C++ programmers who could meet JCI’s tough standards. Learning of this need, MCA sought support from the Education unit at USAID. As a result, EinSof, the Johnson Controls Institute and USAID’s human capacity building project organized a phased C++ training program in 2005. Fourteen of 24 students who completed the training were employed by EinSof and are now doing additional on-the-job training at the company. Others are employed elsewhere or continuing their education. (In all, EinSof hired 22 programmers in 2005 for the JCI contract.)

---

<sup>32</sup> Cluster company

<sup>33</sup> Ibid.

EinSof's 2005 performance resulted in a 'new improved contract' for 2006-2007. The contract lists numerous projects that EinSof will be responsible for rather than a single stated project and value.

- The value of EinSof's first quarter 2006 work for JCI has already exceeded the total value of contracts in 2005, suggesting a strong growth trajectory.

To meet the increased demand from JCI, EinSof will repeat the C++ training in fall 2006 with 25 to 30 students. Lessons learned from the first series and a better understanding of the specific necessary skills will be applied in developing the training, and EinSof hopes to employ at least 70 percent of the completers.

The C++ training had added side benefits. For example, three professors from the Institute for Informatics who taught the courses have adapted the teaching techniques used in their academic classes and are incorporating what they learned from the Johnson Controls Institute, which developed the training. Moreover, in 2005, Johnson Controls provided 22 scholarships, a computer lab and training to students of electro-technics, mathematics and engineering.<sup>34</sup>

### **Capacity building of industry association**

With MCA support, the MASIT Association has increased its capacity to serve members and represent the industry. With MCA support, MASIT chaired a roundtable with universities and conducted a workforce survey and signed MOUs with the universities to increase technical capacity, joined the World IT Services Associate (WITSA), completed a market study with IDC which will place Macedonia in the European IT Observatory's yearly review of European IT capacity and engaged legal counsel to begin alerting members to important legislation.

## **Digital Media**

MCA helped create a new, identifiable, high tech, international industry – digital media – in Macedonia. With a potential to service global industries ranging from entertainment to health care to manufacturing, the digital media industry leverages Macedonia's creative talent and educated workforce while offering hope to young people to reduce the "brain drain" so common in developing countries.

- Completed outsource contracts have grown to approximately \$140,000.<sup>35</sup>

---

<sup>34</sup> Cluster company

<sup>35</sup> Cluster company

- The industry has committed contracts in 2006 of about \$2 million and a pipeline of an additional \$2 million.<sup>36</sup>

Initially focused on digital animation and special effects for the entertainment industry, the Digital Media Focus Group of the IT Cluster included 10 production and post-production companies in June 2004. It later expanded to include companies offering pre-production, production and post-production services. With MCA assistance, a new industry association, the Macedonia Association of Digital Entertainment (MADE) was formed in early 2005.

- MADE soon grew from 17 initial members to more than 35 who voluntarily paid membership fees in early 2006.<sup>37</sup>
- The May 2005 launch of MADE showcased the talent and services that members have to offer potential international clients. It was attended by prominent government officials, donor representatives, clients, potential clients and a host of news media.

In 2005, MADE went through a strategic planning process, identifying three goals: increased exports, improved management capabilities and attracting foreign investment. MADE's board established priorities and approved a plan to achieve its goals.

USAID/MCA's work with digital media began with one company called, at the time, 3X. This was a deviation from MCA's cluster approach to competitiveness to use a "lead company" model, the theory being that the success of a motivated lead company would inspire others in a sector. Already an IT Cluster member, 3X had attended a US trade show in mid-2003 and was anxious to get started. In early 2004 MCA began working with the company to define, promote and brand the industry while simultaneously providing firm-level assistance, including Hollywood-based industry expert advice.

MCA helped 3X to restructure into three companies, each with employee shareholders, and a separate Digital Media NGO was formed. Fx3x became the lead company for MCA's work in digital media. With assistance from MCA and World Learning, company leaders received technical and management training in the US and attended SIGGRAPH 2004, one of the world's largest digital media trade shows.

- The result was a handful of small "test" contracts from the US market, including special effects work on Martin Scorsese's Oscar-nominated film "Aviator," completed in 2004.<sup>38</sup>

---

<sup>36</sup> Ibid

<sup>37</sup> MADE

<sup>38</sup> Cluster company



As identified early by an MCA digital media industry consultant, the quality of fx3x's work met international standards. Soon other, larger contracts were in negotiation and/or contracts completed.

- Work on an animated children's feature, started with a small test contract for the pilot, then the Christmas 2005 special. That led to a contract to produce a year of this animated series. To complete the work, the company expected to hire six to 10 new animators.<sup>39</sup>
- In early 2006, the estimated pipeline of projects was valued at several million dollars.<sup>40</sup>

Local successes were promoted heavily and increased interest in the focus group. MADE membership included more than 25 companies at the end of 2005.<sup>41</sup> At the end of 2005, MADE and the City of Skopje established a Digital Sister City relationship with the City of San Francisco. A videoconference among the mayors of Skopje, San Francisco, Dublin, Toronto and Singapore promoted Macedonia as a global destination for the digital entertainment industry.

MADE has spawned an export consortium and two efforts to build "one-stop shops" for those seeking digital media services. Eight companies formed MADE Export Consortium and presented themselves jointly at three major US and European trade shows in 2005.

- Four members of the consortium completed a seven-minute video presentation valued at \$28,000 for a major European client in 2005. The client's US owner was favorably impressed with the quality and price of the work and may seek additional contracts.<sup>42</sup>

An MCA consultant's report on the digital media industry in Macedonia identified the opportunity to consolidate industry offerings in digital media parks. Fx3x's Digital Media NGO is developing its Digital Media Park in Skopje. The NGO has already acquired a building from the government and anticipates moving to the new facility in 2006. A second "digital media/film city" is being planned for a site outside Skopje by a newly formed commercial company, Collaborative Media Group Ltd. (CMG). CMG originated in the MADE Export Consortium.

- Fourteen companies made an initial cash investment, plus more than \$1 million in equipment to form CMG.<sup>43</sup>

---

<sup>39</sup> Ibid

<sup>40</sup> Ibid

<sup>41</sup> MADE

<sup>42</sup> MADE Export Consortium

<sup>43</sup> CMG

CMG will offer a wide range of services to the entertainment industry, from location scouting to post production. It will also offer digital media services to other industries, such as health care, manufacturing and architecture. The company has identified an acting CEO and is finalizing its business plan. It has already formed a partnership with Canadian Film Centre's New Habitat Lab and begun discussions with FujiFilm and others regarding investment in Macedonia.

MCA also helped CMG to apply for support from USAID's eBiz project, which provides both technical and financial assistance companies seeking to establish computer-based businesses. CMG will be eligible for direct financial assistance and technical assistance from eBiz.<sup>44</sup>

With MCA assistance, MADE applied for a grant from USAID's Global Development Alliance to provide management and technical support to the new venture.

- MADE was notified in early 2006 that it had been awarded a grant from GDA. Details of the contract are being finalized, and implementation is expected to begin in June.<sup>45</sup>

### **3D@E-Schools**

After working with what is now called fx3x, an MCA digital media industry consultant from the US noted that the quality of fx3x's services met Hollywood standards, but the company had woefully inadequate staffing to take on large international contracts. He estimated 100 animators are necessary to properly service a major production. At the time, most Macedonian digital media companies, including fx3x, had fewer than a dozen animators.

With support of MCA and three other USAID projects (E-Schools.mk; PRISMA; and Community Self Help Initiative), fx3x formed Digital Media NGO in 2004 to provide professional animation training based on Maya, a widely used animation software. School computer labs equipped by the Chinese government were used for the basic animation course. Digital Media NGO provided "train the trainer" courses first to interested high school IT teachers in Skopje for the pilot, then to those in 30 high schools in greater Macedonia. After the pilot, the basic training program was turned over to the high schools who offered it after school for a small fee. Top students from the basic program are selected to take part in advanced training. This was taught in an fx3x lab outfitted in part by a grant from MCA. Fx3x staff taught the advanced courses.

---

<sup>44</sup> USAID/Macedonia

<sup>45</sup> USAID/Macedonia

- More than 1,000 mostly high school students received basic animation training in 2004 and 2005. About 70 of those completed advanced training, and approximately half were hired by the local industry, many part-time while they finish their education.<sup>46</sup>
- One basic training course graduate's talent resulted in an immediate job offer from fx3x where she worked prior to receiving a Fulbright Scholarship to study in the US.<sup>47</sup>

### **Softimage Authorized Training Center, Skopje**

In January 2005, a delegation representing MCA and USAID's Europe and Eurasia unit went to Toronto where the major software developers of digital media applications are located. They met with software developers, educational institutions, the Canadian Film Centre and others to learn from Toronto's experience. Several of the software companies were familiar with the Macedonian digital media firms who were using their products. Among those was Softimage, which had under consideration the development of an animation and visual effects training center in the region. The company agreed to support development of an authorized training center in Macedonia to be operated by Axis Production, a local company using Softimage and Avid software. Softimage provided the software, trainer education and trainer certification at no cost.

Axis joined with the Mechanical Engineering Faculty's Center of Excellence to form a sustainable partnership. The Softimage Authorized Training Center for visual effects and animation and Axis' own facilities joined the Center of Excellence in a new building at the Faculty in Skopje. In June 2005 the center was opened with much fanfare as the president of Macedonia attended and announced five scholarships for female students.

- Twenty-two students, including all five presidential scholars, completed the training. All were either employed or went on to complete their education.<sup>48</sup>

## **Wine**

Macedonia's fine wine making tradition reaches back in history to the days before Alexander the Great. However, more recently Macedonia has produced wines that were sold in bulk at low cost, largely to Germany. In keeping with the overarching goal to move up the value chain by selling higher value-added products to more demanding customers, USAID/MCA support to Macedonia's

---

<sup>46</sup> Cluster company reports

<sup>47</sup> Cluster company & US Embassy

<sup>48</sup> Cluster company

wineries has focused on quality and marketing improvements to facilitate increased sales of the country's high-end specialty wines in Europe. New varieties have been launched and are better able to compete with other regional and international wines.

- The average price of bottled wine has increased 40 percent since 2003, the base year for MCA's work with the Wine Cluster.<sup>49</sup>
- Macedonian wineries have invested \$9 million in new facilities and equipment since 2003, an annual increase of 350 percent.<sup>50</sup>
- Industry exports of bottled wine in 2005 were \$8.7 million, a 20 percent increase over the 2003 base year export figure. (In euros, the increase was more than 30 percent.)<sup>51</sup>

Quality wine begins in the vineyards where sunshine and terroir combine to produce grapes with the right chemical composition. MCA has fostered greater cooperation between growers and wineries to improve grape quality. With assistance from a US wine grower/consultant, a model purchasing contract based on quality standards was developed, distributed and discussed with wineries and growers in 2004.

While many of the smaller wineries have their own vineyards, others rely heavily on independent growers who are used to being paid on weight, not quality.

- One winery used the contract with modest success in 2004.<sup>52</sup>
- In 2005, the winery signed more than 1700 quality-based contracts with growers.<sup>53</sup>

Other wineries have followed suit. This is an important first step towards building long-term cooperation between growers and wineries and will have a significant positive influence on wine quality in the long term.

In the last two years five wineries assisted by MCA have received HACCP and ISO certification while two others are in the process of implementing of international quality and management standards.

MCA initiated its cooperation with the Wine Cluster in March 2004, and within weeks four cluster members attended a "taste off" in Serbia that was judged by French sommeliers. Tiny Cekorovi Winery's Vranec won "best red." More recently, in August 2005 Cekorovi executed its first export sales ever. The sale to

---

<sup>49</sup> State Statistical Office reports

<sup>50</sup> Ibid

<sup>51</sup> ibid

<sup>52</sup> Cluster company

<sup>53</sup> Ibid

its target market – Serbia and Montenegro – represents 8 percent of total production.<sup>54</sup> The winery’s export strategy was assisted by an MCA small grant for promotion and marketing.

Quality improvements mean a strong focus on training and education. MCA used US and foreign experts in grape growing, wine making, marketing and promotion, production and management to assist wine owners and wine makers to better understand the international marketplace. Workshops and seminars were interspersed with intensive one-on-one sessions to address the needs of and tailor recommendations to individual wineries. Training in basic sensory evaluation and wine descriptions in mid-2005 gave wine makers and marketing managers a better grasp of basic wine terminology used internationally. Eight sales and marketing managers attended a marketing course at the University of California-Davis, one of the world’s best institutions for wine industry education.

- Many of the eight managers who attended the UC-Davis marketing course represent the “next generation” in family-owned wineries.
- After starting a marketing campaign in the domestic and regional markets, Skovin more than doubled its exports of bottled wine in 2005 compared with 2004.<sup>55</sup> Skovin’s head of the marketing and sales department attended the three-week wine marketing course at UC-Davis.

The three-week course held in June covered a broad range of subjects, from the economics of production to the establishment and marketing of brands. The class visited retail outlets as well as wineries and vineyards in California’s famous wine region. The group also met with consultants who had come to Macedonia.

In early 2005 an “export readiness assessment” was conducted to identify which wines were most exportable. With the aid of market research, the Wine Cluster selected the UK market as the first in which to test its export capabilities. The UK wine market is of sufficient size and diversity to allow for positioning of Macedonian wines at competitive but lucrative prices. UK consumers are open to taste wines of distinction from relatively unknown wine-making regions. In addition, the distribution structure provides appropriate preconditions for Macedonian wines entering the market to choose a niche market and work with specialized wine shops and independents to promote the wines and sell them directly to consumers. A country positioning statement was developed as were materials to improve the image of Macedonian wines.

---

<sup>54</sup> Grant report

<sup>55</sup> Cluster company

### **Macedonian Fine Wines Export Group formed**

Six small and medium-sized wineries that face similar business problems formed the Macedonian Fine Wines Export Group (MFWEG) in 2005 to test the UK market. With assistance from MCA, they developed an integrated marketing strategy to ensure their “new wave” wines are not perceived as “cheap.” A strong brand identity, glossy marketing materials, targeted promotions and common pricing were all integral to the approach to the potentially lucrative UK market. A database of UK wine buyers (distributors, wholesalers and importers) was built along with one of wine writers. MFWEG conducted a “non-dry run” at the home of the UK ambassador to Macedonia. The ambassador invited diplomats and UK business people to taste the “best of Macedonian wine.”

MFWEG’s joint presentation in early September 2005 promoted Macedonia as a country with a long wine-making tradition for “quality, flavour, consistency.” The Ministry of Economy supported the three-day event held at a hotel in the St. James section of London.

- More than 30 potential clients averaged 90 minutes each of tasting and talking over the 17-hour event.
- Seven prestigious wine writers attended a special tasting for them. One won a drawing for a seven-day trip to Macedonia.
- A VIP reception co-hosted by the Macedonian ambassador to the UK was attended by about 100 business people and dignitaries, including 15 diplomats.<sup>56</sup>

Many buyers and writers were intrigued by Vranec, Macedonia’s indigenous red wine. Both provided MFWEG members with first hand feedback on their wines and their chance of success in the UK. MFWEG members learned about what buyers are looking for in wines, how wines are promoted and priced, the role of publicity in wine publications.

Returning to Macedonia, the group started on its “next steps.” Members formed MAKVINO, the Macedonian Association of Quality Wine Makers, to promote the country’s image as a quality wine maker, increase exports and increase competitiveness in the industry. Membership has been opened to all Macedonian wineries. In 2006 a tasting committee is being organized and will establish the criteria for use of the association’s quality mark.

### **Wine tourism initiative to be launched**

Wine and tourism are a winning economic development combination in other wine producing countries, and business people and wine-makers are exploring the opportunities for Macedonia. Feasibility studies and business planning are

---

<sup>56</sup> All info from initiative report

underway to develop a “wine road” connecting wineries and overnight accommodations in two key wine regions of the country. A Wine Road Foundation was established in early 2006 to manage the project. Membership consists of local business people, relevant institutions and five municipalities in the Tikves region. The first step is to assess the region’s potential and identify key participants. A US tourism consultant who has worked with the Bulgarian wine region will assist the foundation in May-June 2006. A study tour to the successful Bulgarian wine region is to be held in early June. MCA’s goal is to help the foundation take the initial steps necessary to begin developing wine tourism in the region.

## Apparel

Finding new high-end customers in the European market is a critical element of the Apparel Cluster’s strategy. To help accomplish that, USAID/MCA supported cluster companies’ participation at major trade fairs in Copenhagen, Milan and Madrid.

- Five cluster companies reported signing contracts totaling almost \$5.4 million in 2005 as a result of participation in trade fairs supported by MCA. Among their demanding new clients are top European brands, such as H&M, Zara, Moschino, Valentino, Columbia and Carrefour. Total reported contracts to date in 2006 already exceed \$330,000.<sup>57</sup>
- The value of 2005 apparel exports (excluding Germany) of active cluster members was almost three times that of non-active members -- \$34.6 million vs. \$11.8 million.<sup>58</sup>
- Cluster companies have either made in 2005 or plan to make in 2006 investments in new factories and equipment valued at almost \$3 million.<sup>59</sup>

CIFF in Copenhagen is the largest Northern European fashion fair. MCA took cluster companies to experience a major trade fair, see first hand how competitors presented themselves and explore opportunities in Scandinavia.

- One company has already garnered a \$1 million contract to produce women’s polo shirts as a result of this fair, and another is in negotiations.<sup>60</sup>

---

<sup>57</sup> Cluster companies

<sup>58</sup> State Statistical Office reports

<sup>59</sup> Cluster companies

<sup>60</sup> Cluster companies

The joint exhibition by six companies at March's "Ready to Show" fair in Milan represented a number of important industry "firsts:"<sup>61</sup>

- Macedonian apparel companies exhibited in Milan, arguably the most competitive fashion market in the world;
- Joint exhibition by Macedonian apparel companies at a European show;
- Macedonian companies prepared for the exhibit with a design consultant from the target market, new focused promotional materials and a list of specific customers (producers and retailers) to target.

While USAID/MCA took the lead in preparing cluster members for Copenhagen and Milan, the members took the lead on SIMM in Madrid. Six companies took part in the joint exhibition. At all three trade fairs, MCA arranged for Macedonia's fashion portal, [www.fashionmk.com](http://www.fashionmk.com), (operated by IT Cluster member EinSof) to participate with the apparel companies.

Apparel was selected in October 2004 as the final cluster to receive MCA support. Having been turned down previously, several companies from various segments of the cluster began working together and formed the Textile Trade Association (TTA). As a result of having worked together prior to becoming an official MCA-assisted cluster, they presented a strong, cohesive vision for the apparel industry. The cluster has seen good participation from the Ministry of Economy (MoE) as well as the university faculty and in June opened leadership council membership to include a representative from the MoE and university as well as a newly formed Association of Designers.

Through the National Entrepreneurship & Competitiveness Council, the cluster successfully lobbied to have a customs law changed that taxed imported inputs that are used for exported finished goods. Cluster members took part in seminars to learn how the new law would affect them and worked with Customs officials on a pilot to test the new system that would be in place in 2006.

The cluster has had a strong focus on education from individual members as well as the cluster as a whole.

- Cluster input to the Ministry of Education on textile industry curricula resulted in changes that will provide more specialized subject matter.<sup>62</sup>
- Cluster member Birkhart Globistics donated 11 software packages for CAD systems to the textile high school in Stip and provided professional training through an expert from the company that produces the system.<sup>63</sup>

---

<sup>61</sup> Initiative report

<sup>62</sup> Cluster company

<sup>63</sup> Cluster company



- Twelve companies applied to participate in training offered by the EAR's Fund for HR Development.<sup>64</sup>
- Academia Italiana, well known design school headquartered in Florence, Italy, signed a memorandum of understanding with Euroregional Belasica (Macedonia and Greece) to establish an affiliate school in Strumica. The school, to open in fall 2006 with 350 students, will offer courses in fashion, interior and production design as well as graphic design and communications.<sup>65</sup>

With assistance from an USAID/MCA, cluster members began to reassess their marketing and promotional materials. Many used grants from MCA to support development and printing of new promotional brochures and to participate in industry events such as London and Paris Fashion Weeks.

Cluster members worked together to create an electronic "Textile Map of the Republic of Macedonia." By clicking on a city, potential clients or investors can see the companies in that area, their capabilities, interests and capacities. The map is an important marketing tool for the industry as well as an investment promotion tool that may have broader appeal for Macedonia at the national level.

As part of the cluster sustainability strategy, MCA connected the cluster with CBI, the Dutch agency for promotion of imports from developing countries. CBI met initially with the cluster in July 2005 to begin assessing technical assistance needs and discuss mutually beneficial long-term cooperation. In fall CBI held a workshop to familiarize cluster members with its proposed five-year export development program for Macedonia, and more than 30 members applied to take part. Selection of up to 25 participants started in spring 2006.

The Apparel Cluster Leadership Council (CLC) made the first step toward cluster sustainability with the merger of the Textile Trade Association and the Apparel Cluster. Discussion of the cluster's sustainability began at the CLC's instigation, not MCA's. At a December 2005 meeting, some 120 industry representatives attended a meeting at which the Apparel CLC announced the merger and presented a 2006 work plan. The new organization aims to establish itself as a self-sustainable and professional trade association for the industry, thus introducing annual membership fees (100 euros per year per member). By the end of 2005, more than 40 companies had paid a preliminary membership fee and were willing to pay more in order to reach the targeted annual budget of

---

<sup>64</sup> Cluster companies

<sup>65</sup> Cluster company

15,000 euros for opening an office and hiring staff that will support their activities.<sup>66</sup>

Since the cluster's formation, the industry has seen significant new investment, including completion of a second logistics center, construction beginning on a green field apparel factory, and announcement of another green field factory to be built, and an increase in employment among cluster companies.

### **New investments, new employment**

Cluster companies have either made in 2005 or plan to make in 2006 investments in new factories and equipment valued at almost \$3 million.

The opening of **Global Plus Logistics Centre** in June 2005 outside Skopje increases the competitive advantage of Macedonia. The center can provide full package services to demanding customers. That is, the company can purchase and store all raw materials, sub-contract to a network of 50 Macedonian ready-to-wear and knitted goods manufacturers, produce patterns and cut materials using the latest CAD/CAM equipment, monitor quality and deliver the finished garments to clients in Europe in 90 to 120 days.

Established in 1990, Global Plus is a market leader in apparel exports in Macedonia and Southeast Europe. The company employs 65 professionals, many in high tech positions at well above minimum wage.<sup>67</sup>

**Arlen**, a Polish company specializing in uniforms, corporate wear, work wear and protective clothing for the food and medical industries, broke ground in 2005 on a new factory in Delcevo. Expected to open in mid-2006, the factory will employ about 100 workers. Arlen anticipates using the facility to produce its new line of hospital surgical apparel that meets the latest EU standards and uses the latest fabric technology.<sup>68</sup>

In early 2006, **Maxima** began negotiations on a joint venture to establish a state-of-the-art factory to produce classic men's trousers. Maxima's foreign partner is from Germany; production is expected to move from Poland. The factory is expected to create 70 to 80 new jobs.<sup>69</sup>

Domestic investment has been strong. In 2006, **Amor-ko** said it had invested in a new production facility with 30 new sewing machines. The plant is expected to

---

<sup>66</sup> TTA-AC

<sup>67</sup> Cluster company

<sup>68</sup> Arlen SA

<sup>69</sup> Cluster company

employ an additional 30 people.<sup>70</sup> Shirt-maker **Paltex** said that it would purchase a new automated cutting machine,<sup>71</sup> which will improve its competitive position for producing high volumes, providing faster delivery and offering higher quality products. **VIT** said it has invested to establish a new jeans factory in Stip with monthly production of 7,000 pairs of jeans.<sup>72</sup> And **Albatros** is opening a new factory in the ASTIBO complex in Stip with an additional 150 new employees.<sup>73</sup>

In May, MCA learned that three cluster members are partnering to bid on a building in Stip that would become a fabric mill. Their decision was based in part on a feasibility study on the potential for a fabric mill in Macedonia. The study was prepared in mid-2005 by a Macedonian consultant BASME for the Apparel Cluster and concluded that such a facility could be profitable.<sup>74</sup>

Danitex and Maxima are among the cluster companies who have already increased their employment as a result of new business opportunities. The two firms said they have hired 50 new employees to meet foreign demand.<sup>75</sup>

MCA helped cluster companies to increase their productivity by replacing their outdated production system with the Progressive Bundle System (PBS). This more efficient system was introduced to cluster members, two of which took part in a pilot in 2005 under direction of an MCA apparel production consultant. The companies were able to increase productivity as much as 30 percent without any capital investment. Deltatex reported in March 2006 that the company's shirt-making facility had been completely transformed to the new system. A second pilot using blazers started in May 2006 at MILANO. Preliminary analysis showed that a modular production system was most appropriate. This is a more sophisticated system than PBS.

To increase competition among equipment suppliers and thereby help lower prices, MCA and a Taiwanese sewing machine manufacturer that has established a new representative office in Macedonia, jointly organized a presentation for managers and professional training for technicians. The company made its first sale of 50 new sewing machines.<sup>76</sup>

---

<sup>70</sup> Cluster company

<sup>71</sup> Ibid

<sup>72</sup> Ibid

<sup>73</sup> Ibid

<sup>74</sup> USAID

<sup>75</sup> Cluster companies

<sup>76</sup> Cluster company

## Grants

USAID/MCA's small grants program helped cluster members stretch their budgets as they undertook activities that supported individual and cluster-wide goals.

- Approximately \$300,000 was distributed to more than 30 companies or associations, representing all five clusters. (59 applications were received.)<sup>77</sup>
- Grants to the IT Cluster were the largest in number and value, followed by the Apparel Cluster.<sup>78</sup>

Results and outcomes directly attributable to USAID/MCA's 2005 grant program include:

- Studio SPIN developed new promotional materials to introduce this Macedonian design house to Europe. The firm sold its collections in Holland, Switzerland and Croatia.<sup>79</sup>
- Axis Production received a grant to help promote its new Softimage Authorized Training Center, including the grand opening at which the president of Macedonia announced five scholarships for female students. Those five young women were among the program's first 22 graduates.<sup>80</sup>
- Digital Media NGO received funds for 30 scholarships for students in its 3D@E-Schools' advanced animation course. Thirty-six students graduated from the 2005 program.<sup>81</sup>
- MASIT used part of its MCA grant to support joining the worldwide IT association WITSA, which accepted MASIT's membership in 2005.
- Liva Komerc, operator of the Stobi Visitors Center, increased the visibility of the site and center with billboards as well as promotional materials. Liva reported that visitors in the summer 2005 months increased 70 percent after billboards were placed on the highway north and south of the center.<sup>82</sup>
- Tiny apparel firm Gracija used its MCA grant to promote the firm at London Fashion Week and Zip Zone Exhibition in Paris and has already received small contracts in 2005 and 2006.<sup>83</sup>

---

<sup>77</sup> Grants presentation to USAID

<sup>78</sup> Ibid

<sup>79</sup> Grant report

<sup>80</sup> Ibid

<sup>81</sup> Ibid

<sup>82</sup> Ibid

<sup>83</sup> Grant report

## **Macedonia: A Better Place to Live, Work, Invest**

### **Public/Private Dialogue & Action**

Before USAID/MCA, Macedonia lacked effective public/private sector dialogue and partnership mechanisms focused on key economic and business issues. Inaugurated in 2003 as a forum for dialogue and action to improve Macedonia's business environment, the National Entrepreneurship & Competitiveness Council (NECC) underwent a significant transition in 2005 – from being an initiative of a USAID-supported project, MCA, to being a Macedonian institution. The prime minister opened and attended the first 2005 meeting, commending the Council on its work to date. Mid-year the deputy prime minister for economic affairs effectively became the sole NECC chair and guided the Council's transition. Throughout the year, MCA provided mentoring, capacity building and training to NECC staff, establishing a firm foundation for a sustainable Council.

Preparation and dissemination of Macedonia's first National Competitiveness Report was a significant milestone achieved by the Council in December 2005. The authors (NECC staff and board members) produced a report that has been commended for high-quality and objectivity. They based their work on the World Economic Forum's Global Competitiveness Report and comparisons with the region and EU; consideration of comments, recommendations and guidelines for improvements from prominent local and international experts; and relevant data and information received from NECC members and other business and social associations in Macedonia. The report helped inform the Council's 2006 action plan.

Twelve NECC members, including one from the public sector (minister of economy) traveled to Ireland in April 2005 to learn how that small country moved from economic backwater to "Celtic Tiger." The trip was sponsored by USAID World Learning. The members learned several valuable lessons from Ireland, including the importance of focusing its efforts, something the Council started to put this into practice on its return. The editor of *Kapital* magazine, a guest on the study tour, wrote a series of related articles afterwards.

The NECC registered a legal entity (NGO) to support its activities, the first step toward independence and sustainability. The Council hired its first executive director in summer 2005 with MCA support. He initiated development of a web site for the Council to publicize its work. By fall, structural changes were made to ensure more efficient functioning of the Council: dual leadership was abandoned, the management board became more active in leading future Council activities, and membership was opened to new clusters, civil society

organizations, chambers of commerce and academia representatives. The enlarged membership was to provide sound project proposals that are consistent with the NECC mission and also provide a critical mass for implementation of proposed initiatives. The Chamber of Commerce of Macedonia, the Chamber of Commerce of Western Macedonia, the European Business Association and one private sector representative, Gzime Fezji of Fezji Dairy in Gostivar, joined in January 2006.

As the year closed, the NECC chair, the deputy prime minister for economic affairs, had initiated a campaign to identify additional funding sources among donors and the private sector. Through MCA, USAID made an additional financial commitment to the Council for 2006. In early 2006, MCA's direct staff support of the Council closed, and the NECC staff moved to separate offices in the MCA building. The MCA staff member who had supported the Council became an NECC employee.

During the year, the Council provided valuable input to a debate on a revised telecommunications law that ultimately was changed and resulted in a significant decrease in long distance calling rates, which directly benefits Macedonia's companies pursuing international business goals. The new law also allows for increased competition and legal recourse/consumer protection for businesses and individuals.

The NECC also was a co-sponsor of a Macedonian conference on corporate social responsibility that was initiated by another USAID project, corporate governance and company law. NECC members were active in planning and organizing this first-time event.

Through the Council, Apparel Cluster members initiated discussions with the public sector (Ministries of Finance and Economy) that resulted in changes in customs laws related to duties on imported raw materials for exports.

The third annual National Summit on Competitiveness in October was one of the first speaking engagements of the new US ambassador to Macedonia. A presentation of the results of the most recent World Economic Forum (WEF) Global Competitiveness Survey was another highlight of the meeting attended by 200 top business, government, diplomatic and civil sector leaders.

The Council continues to administer the annual business leader survey for the World Economic Forum (WEF) Global Competitiveness Survey. With MCA assistance, Macedonia was included in the WEF survey and report for the first time in 2003/2004. These reports are generally accepted as an authoritative comparison of competitiveness and economic growth potential of economies that

collectively account for nearly 97 percent of the world's GDP. Macedonia ranked 85<sup>th</sup> in the Growth Competitiveness Index in 2005/2006 report. While that was a nominal drop of one place from the previous survey, in reality the country had moved up by six positions because of a higher number of countries in the more recent rankings. In 2003/2004, 104 countries were ranked, compared with 117 in 2005/2006. Six of the 13 new countries in the new survey ranked higher than Macedonia.<sup>84</sup>

### **Increasing awareness, changing minds,**

“Competitiveness” and “cluster” have become part of the Macedonian lexicon since MCA opened its doors three-plus years ago, especially among business people. All of the business people responding to MCA's 2005 survey of attitudes, awareness and behavior change were familiar with the concept of competitiveness.

MCA conducted this annual survey to measure changes in awareness, understanding, trust and behavior. The primary focus is on the business community since MCA works most closely with cluster companies. However, MCA also surveys the general public.

A few highlights of the 2005 survey<sup>85</sup> include:

- Increase in the number of business respondents who believe the private sector should take the lead on deciding on how and where Macedonian business should compete.
- Increase in number of business people aware of the NECC
- More than 90 percent of business respondents reported undertaking new business activities as a result of something they heard or learned about competitiveness in the past year. Changes included product modifications, investment in market research, new product development, research on EU or US product or quality standards and taking part in training.

Trust underlies the success of the cluster concept, and trust among business respondents increased from 2004, even though general public trust had declined. An outstanding example of this greater degree of trust was discussed in the Lamb & Cheese Cluster Business Results section: the Western and Eastern Sheep Breeders Associations have grown to trust each other so well that they agreed to flip a coin to determine which would officially represent their cooperatives in contract negotiations.

---

<sup>84</sup> First Macedonian National Competitiveness Report 2005

<sup>85</sup> “Mental Models Survey” report 2005

In a different kind of “changing minds” initiative, MCA’s Tourism Cluster in cooperation with Radio Ravel of Skopje implemented an educational component to its anti-litter campaign, focusing on “Raising Environmental Awareness” among students at 12 primary schools in Tetovo, Struga, Ohrid, Bitola and Skopje. The focus was on pre-school, first and second grade students to affect behaviors and attitudes at an early age. The main goal of the activity was to promote an “ecological culture” among the younger generation and the importance of being environmentally aware.

Characters dressed as a “clean environment” and a “dirty environment” took their messages to more than 1800 pupils in participating schools. Some 2,000 coloring books with a ‘clean environment’ message were distributed to students on their last day of school. The coloring books were in both Macedonian and Albanian. Copies of the coloring books were available to both the Ministry of Education and the Ministry of Environment & Physical Planning as well as the mayor of Ohrid at his request.

Additionally, about 30 students from two Skopje schools painted dumpsters and cleaned up a neighborhood and around the city museum.<sup>86</sup>

## **Domestic, foreign investment increases**

Investment is covered in more detail in the *Business Results* section of this report. Below are highlights of the major investments to which USAID/MCA contributed.

**Lamb & Cheese:** \$2.4 million in new plants and equipment in 2005.

**Tourism:** \$2.5 in new facilities in 2005.

**Wine:** \$9 million in new facilities and equipment since 2003.

**Apparel:** Almost \$3 million in new plants and equipment in 2005-06.

## **Competitiveness is for everyone!**

Hard work, good weather and lots of vendors resulted in a successful Third Annual **Street Festival** in mid-October. MCA’s Public Education Department

---

<sup>86</sup> Cluster reports



(PED) worked with staff of the Municipality of Karpos to organize the festival as well as provided capacity building; the municipality had agreed to continue the festival tradition.

In fall 2003, MCA initiated the first annual Street Festival in conjunction with the first annual National Summit on Competitiveness. Together these events were billed as the “Days of Macedonian Competitiveness” to introduce the concept of competitiveness to the general public. USAID and MCA project leadership felt strongly that improving competitiveness requires broad-based participation from multiple sectors and must extend beyond the economic and political elites. Because of the festival’s popularity and success, MCA continued the festival in 2004 with even greater success and in 2005, decided to find a “home” for the festival to continue beyond MCA’s tenure. The mayor of Karpos enthusiastically agreed to provide that.

The 2005 festival featured 36 vendors and exhibitors, mostly cluster members and other companies who had previously taken part in the festival but also a few new participants from the municipality. Vendors generously provided products for drawings. MCA and municipality staff successfully approached a number of companies to be festival sponsors with either cash or in kind contributions. Karpos organized a rich entertainment program for all ages, and a separate “children’s corner” again provided activities for small children. Media coverage was extensive in print and broadcast.<sup>87</sup>

Some 22 Lamb & Cheese and Wine Cluster members successfully presented their respective products at the second annual **Ohrid Wine & Cheese Festival** held at the end of July in Macedonia’s premier lakeside resort town. The Western Regional Sheep Breeders Association organized the event in cooperation with MCA, Land O’ Lakes, the City of Ohrid, and the Ministries of Economy and Agriculture, Forestry and Water Management.

The festival was initiated by MCA in 2004 to help sheep herders better understand and serve customers while increasing sales and profits. The sheep herders use traditional techniques to produce wonderful cheeses. Although cheese is one of their most profitable income sources, a majority of production has traditionally been sold at the farm gate to re-sellers. The Ohrid festival has begun to change that pattern and assist farmers to increase their margins. Participants expressed great satisfaction with the 2005 results -- Almost 2.5 tons of cheese and 1500 bottles of wine were sold, totaling about \$17,000.<sup>88</sup> The association plans to make the festival an annual tradition.

---

<sup>87</sup> Street Festival report 2005

<sup>88</sup> Ohrid Wine & Cheese Festival Report 2005

More than 500 domestic and foreign tourists visited the first annual **Sheep Breeders' Day in Galicnik**, as a local sheep breeders' association followed MCA's lead and organized this successful festival. Sheep milking and shearing contests, special wrestling demonstration and other activities were organized by the association. Sheep milk products and lamb were available for sampling as were traditional crafts made from sheep by-products. The association plans to make this event an annual tradition.